

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 IGA-02 /096 W
-----007997 111708Z /42

R 111510Z JUL 77
FM AMEMBASSY ROME
TO SECSTATE WASH DC 5792
TREASURY DEPT WASH DC
AMEMBASSY BERN
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMCONGEN MILAN
AMCONGEN NAPLES

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UWEC; USOECD; PASS FRB

E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: ITALIAN FINANCIAL MARKET DEVELOPMENTS (77-2)

REF: ROME 10230

1. TABLE 1 PRESENTS MONETARY MOVEMENTS FOR PERIODS JUNE
1-15 AND JANUARY 1-JUNE 15. DATA FOR THE FIRST HALF OF
JUNE SHOW AN OVERALL BALANCE OF PAYMENTS SURPLUS OF \$102
MILLION, AN INCREASE IN OFFICIAL CONVERTIBLE FOREIGN
EXCHANGE HOLDINGS OF \$1.25 BILLION, AND A FURTHER IN-
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CREASE IN THE NET FOREIGN DEBT POSITION OF THE COMMERCIAL
BANKS OF \$511 MILLION. MAIN DEVELOPMENTS TO NOTE ARE:
(1) THE BALNCE OF PAYMENTS HAS SWUNG INTO SURPLUS AND
SHOULD REMAIN IN SURPLUS THROUGH THE SEASONALLY STRONG
THIRD QUARTER, AND (2) THE RATE OF COMMERCIAL BANKS'
BORROWING ABROAD HAS SLACKENED SOMEWHAT AND IS NOW SUB-
STANTIALY EXCEEDED BY THE RISE IN RESERVES. THE OFFICIAL

HOLDINGS OF CONVERTIBLE FOREIGN EXCHANGE "COVERAGE" OF COMMERCIAL BANKS' SHORT-TERM LIABILITIES TO FOREIGNERS APPEARS TO HAVE REACHED ITS LOW IN MID-MAY AT ABOUT 60 PERCENT. IT IS NOW ABOUT 80 PERCENT AND RISING (TABLE 2).

2. IN CONNECTION WITH THE FOREIGN DEBTOR POSITION OF THE BANKS, SOME CONSIDERATIONS AND EXPLANATIONS MAY BE NOTED (IN ADDITION TO THOSE IN REFTEL). THESE SHORT-TERM BORROWINGS SERVED TO STABILIZE THE LIRA DURING A SEASONALLY WEAK PERIOD. SINCE THE ITALIANS FIRMLY BELIEVE THAT DEPRECIATION LEADS PROMPTLY TO A RISE IN THE GENERAL LEVEL OF INTERNAL PRICES, IT IS UNDERSTANDABLE THAT THEY DID NOT ELIMINATE THIS IMPORTANT STABILIZING FACTOR AT A TIME WHEN THEY WERE TRYING TO GET INFLATION UNDER CONTROL. SUCH BORROWING ABROAD ALSO GAVE ITALIAN FIRMS ACCESS TO CREDIT AT ROUGHLY INTERNATIONAL MARKET RATES OF INTEREST WHEN THE NOMINAL COST OF LIRA CREDIT WAS AROUND 20 PERCENT. IT THUS ACTED AS A SAFETY VALVE IN REDUCING PRESSURE ON THE AUTHORITIES TO REDUCE DOMESTIC INTEREST RATES AT A TIME WHEN HIGH NOMINAL RATES WERE NECESSARY TO ENCOURAGE SAVING. IT ALSO REDUCED INTEREST RATES COSTS TO BUSINESS AS A CONTRIBUTION TO FIGHT AGAINST INFLATION.

3. TABLE 3 SHOWS EXTRAORDINARY FOREIGN EXCHANGE TRANSACTIONS. DURING THE JUNE 1-15 PERIOD THESE CONSISTED OF LIMITED OFFICIAL USE

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RECEIPT OF PROCEEDS OF EC MEDIUM-TERM BORROWING (\$500 MILLION) THAT REPLACES ITALY'S PREPAYMENT OF UK PORTION OF PREVIOUS EC LOAN AND ADDITIONAL (THE SECOND) DRAWING OF \$160 MILLION ON BUNDESBANK LOAN IN LINE WITH INCREASE IN CURRENT MARKET VALUE OF ITALY'S PLEDGED GOLD COLLATERAL./ THESE TRANSACTIONS INCREASE "CONVERT. FOR. EXCH. AND DECREASE "OTHER ITEMS IN TABLE 1.)

4. OTHER FINANCIAL MARKET DEVELOPMENTS FROM 20 JUNE TO 8 JULY ARE GIVEN IN TABLE 4. THE LIRA STRENGTHENED SLIGHTLY AGAINST THE DOLLAR, REFLECTING THE WEAKNESS OF THE DOLLAR DURING THE RECENT PERIOD, WHILE THE LIRA DEPRECIATED SLIGHTLY AGAINST ALL OTHER CURRENCIES. AS THE YEAR MOVES INTO THE HEIGHT OF THE TOURIST SEASON, THE LIRA REMAINS AT A SUBSTANTIAL PREMIUM ON THE BLACK MARKET (I.E. THE COST OF LIRA BANK NOTES IN SWITZERLAND AND PRESUMABLY ELSEWHERE OUTSIDE OF ITALY IS HIGHER THAN FROM LEGAL SOURCES IN ITALY). DOMESTIC MONEY MARKET RATES CONTINUED ON THE DOWNWARD TREND IN LINE WITH THE AMPLE AMOUNT OF BANKS' LIQUIDITY AND THE FAVORABLE ATTITUDE OF THE AUTHORITIES TO SOME EASING OF ITALIAN SHORT-TERM INTEREST RATES.

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5. TABLE 1- IMONETARY MOVEMENTS (MILLIONS OF DOLLARS)
JUNE 1-15 JAN 1 TO JUN 15

1. BOI/UIC:		
GOLD	862.41)	
CONVERT.FOR.EXCH.	1,252.5	2,436.0
OTHER (INCL. GOLD)		
REVAL. LIAB)	-641.0	-1,694.1
TOTAL BOI/UIC	611.5	1,04.3
2. COMM. BANKS' NET.FOR.POS.	-510.7	-3,837.8
SUB-TOTAL	100.8	2,233.5

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3. FOR.EXCHANGE ADJUST.(APP) 1.2 8.5

4. BOP SURPLUS/DEFICIT 102.0 2,225.0

1) INCLUDES GOLD REVALUTATION OF \$853.7-SHOWN AS SIMULTANEOUS
RISE IN GOLD ASSETS AND CORRESPONDING CREATION OF EQUAL
CONTINGENT LIABILITY. LATTER IS INCLUDED IN "OTHER."

6. TABE 2-FOREIGN RESERVE POSITION (MILIIONS OF DOLLARS)

12/31/76 6/15/77

1. BOI/UIC

GOLD	9,320.5	10,182.9
CONVERT.FOR.EXCH.	3,132.0	5,568.0
OTHER (INCL. GOLD REVAL.		
LIRE)	-12,372.0	-14,066.1
TOTAL BOI/UIC	80.5	1,684.8

2. COMMERC. BANKS NET.FOR.POS. -3,011.0 -6,848.8

TOTAL -2,930.5 -5,164.0

1) INCLUDESLIABILITIES TO EC, BUNDESBANK AND MF.

7. TABLE 3-EXTRADORINARY TRANSACTIONS (MILLIONS OF DOLLARS)

JUNE 1-15 JAN 1-JUNE 15

FIAT/LIBYA	306.0	
GOLD REVALUATIONS	853.7	
BUNDESBANK LOAN	160.0	264.0
IMF STANDBY (1977)	104.0	
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EC LOAN	500.0	500.0
EUROMARKET LOANS		-200.0

8. TABLE 4-FINANCIAL MARKET RATES

6/20/77 7/8/77

LIRA/DOLLAR FX RATE SPOT	885.00	883.45
3 MOS. FORWARD	903.75	900.45
BLK MKT.	879.00	871.00
BOI FX INDEX 1)/ALL CURRENCIES	37.62	38.02
DOLLAR	34.35	34.24
INTER-BANK INTEREST RATES48-HOUR	13.875	13.375
3-MOS.	14.375	14.125

1) WEIGHTED AVERAGE PERCENT DEPRECIATION SINCE 2/9/73
(SECOND DOLLAR DEVALUATION)

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Message Attributes

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Disposition Approved on Date:
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